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UNCLAS SECTION 01 OF 02 SAO PAULO 001130

SIPDIS

STATE FOR U/S LARSON, WHA/BSC, AND EB/TPP/ABT
DEPARTMENT ALSO FOR WHA/PD
STATE PASS USTR FOR AJOHNSON
STATE PASS EPA FOR JANDERSON
STATE PASS FDA
USDA FOR U/S PENN
USDA FAS FOR ADMINISTRATOR ETERPSTRA
USDA APHIS FOR ADMINISTRATOR RDEHAVEN
USDA ARS FOR A/ADMINISTRATOR EKNIPPLING
USDA FAS/FAA FOR A/WH AREA FOR JBAILEY
USDA FAS/ITP FOR PSHEIKH, WESTMAN, BGRUNENFELDER, BFREEMAN
USDA FAS/CMP/HTP FOR FTARRANT, RKNAPP
COMMERCEUSDOC FOR
4332/ITA/MAC/WH/OLAC/DMCDOUGAL/ADRISCOLL/JAND ERSON/WBASTION
USDOC FOR 3134/USFCS/OIO/EOLSON/DDEVITO

E.O. 12958: N/A

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SUBJECT: Two for Two: Brazil's Trade Policy Machine Delivers
Another Hit in the WTO Arena

1) Summary: From the Ministry of Foreign Affairs (Itamaraty) to the rolling sea of sugar cane on the hillsides in the center-west of Sao Paulo state, Brazilian agriculture is basking in its second international trade policy victory in two months. Following a WTO Dispute Panel's findings in favor of Brazil's claims against U.S. domestic cotton supports in June, another Dispute Panel agreed that Brazilian (and Thai and Australian) sugar production/export interests were unfairly prejudiced by European Union export subsidization. Now the media is asking which will be the next developed country production and/or trade policy to be targeted. End Summary.

2) According to comments by GOB officials and media reports, the preliminary findings are that the WTO's Dispute Panel agrees in its preliminary findings as agreed with Brazil's contention that EU export subsidies violated the international trade organization's rules and denied Brazilian, Australian and Thai producers close to \$500 million in export earnings. It is noteworthy that as was true with the WTO's ruling on U.S. domestic supports for cotton growers, Brazil immediately trumpeted the results of what is supposed to be a confidential preliminary report available only to the concerned parties, thereby ignoring WTO rules and tradition. The WTO's official judgment on Brazil's case, for which Australia and Thailand are co-plaintiffs, will be formally announced in late September, but there is little to no reason to expect a difference between what has been preliminarily revealed and the official decision. In view of their success in this case and given that Brazil is already the world's largest and arguably most efficient sugar producer, industry and government representatives alike are understandably bullish about future production and export prospects.

3) While most expect the EU to go through the motions of an appeal, once to the WTO's decision once it is finalized, there are expectations that is essentially no doubt that in keeping with what is perceived as the EU's increasing recognition of the need to curb its producer/trade supports, this decision will prompt the EU to expand the process it has already begun to reduce contribute to some de-subsidization of its in the EU's sugar industry. And Brazilian producers are poised to fill any void created by smaller EU output. Though speculation about eventual EU compliance with the WTO decision may be premature with regard to the eventual implementation leading from the WTO's decision, starting as soon as 2005, some Sao Paulo based observers are predicting a bounce in Brazilian sugar exports of 2-4 million metric tons annually based on the expectation that the EU will reduce the volume of its supply available for export or, re-export, including as is the case with EU subsidies on sugar sourced from former colonies. There is little to impede a sizable increase in Brazilian sugar cane production. With only 5.5 million hectares currently dedicated to this use nationwide, there are millions more available that could be converted from pasture, citrus groves or other crops in Sao Paulo state and new lands that could be brought into production in Brazil's northeast, albeit at a slower pace.

4) As a result of its recent WTO successes, the Brazilian trade policy apparatus is increasingly confident in its mission to promote and protect the interests of its producers and those, as in the case of West African cotton producers, of the lesser developed countries. In the media, these WTO rulings have taken on a David versus Goliath aura.

To Brazil's agribusiness leadership, these have certainly been just and fitting outcomes, and there is already speculation about the next developed country commodity program Brazil will challenge. Florida's agreement to reduce its equalization excise tax on imported orange juice concentrate earlier this year led Brazil to withdraw the WTO case it had filed, and in view of the recent success of its soybean producers, its purported complaint against U.S. support for soybean growers has been shelved. Now, some are suggesting Brazil will target U.S. anti-dumping policy as applied to Brazil's shrimp industry. On the other hand, with the WTO agreement on a framework to advance Doha-round negotiations struck in Geneva at the end of July, it is not clear what, if anything, Brazil will target next for litigation. Duddy